Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Applications of WorldCom, Inc. and	)	
MCI Communications Corporation	)	CC Docket No. 97-211
for Transfer of Control of	)	
MCI Communications Corporation to	)	
WorldCom, Inc.	)	

To: The Commission

RESPONSE OF GTE SERVICE CORPORATION, ITS AFFILIATED TELECOMMUNICATIONS COMPANIES AND GTE INTERNETWORKING IN SUPPORT OF PETITIONS TO DENY

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GTE Service Corporation, its affiliated telecommunications companies,[1] and GTE Internetworking (collectively "GTE") herewith submit their response to the petitions to deny and comments filed by other parties with respect to the above-captioned applications of WorldCom, Inc. for transfer of control of MCI Communications Corporation ("MCI"). Those petitions and comments raise serious concerns that the proposed merger will have severe anticompetitive consequences that the applicants have wholly ignored to date. Specifically, the merged entity would control a dominant backbone network that would enjoy the unprecedented incentive and opportunity to degrade crucial interconnections with its rivals and raise prices for both users and competitors. In such circumstances, the risks of harm to the public and to other market participants from the combination of these two companies compel a conclusion that the merger would not serve the public interest.

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[1] GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., Contel of the South, Inc., GTE Communications Corporation, and GTE Hawaiian Tel International Incorporated.

I. INTRODUCTION

In its Petition to Deny, GTE documented at length the adverse competitive effects of the merger for product markets that cover virtually the entire range of telecommunications services. Indeed, the facts proffered by GTE and other petitioners concerning the exchange, interexchange and international service markets are based upon incontestable market data derived from FCC reports for which further elaboration is not warranted in this response. With respect to the Internet market, however, GTE notes that the other parties filing petitions or comments have provided assessments derived from various sources. As a participant in the Internet services businesses, GTE believes that a response to these submissions in the opening round will contribute to the Commission's evaluation of this information.

Through its recent acquisition of BBN Corporation, GTE has become a significant provider of Internet services. GTE Internetworking now operates an Internet backbone network and provides dedicated Internet access to businesses, Internet service providers ("ISPs"), educational institutions, and government entities. It also provides a complementary suite of value-added services and offers dial-up access to small businesses and consumers. In these capacities, GTE is both a competitor of WorldCom's and MCI's Internet services and their customer for interconnection to their backbone networks.

In its petition to deny, GTE noted that the Commission should consider the competitive consequences of the merger for the Internet market as part of its public interest evaluation of the transaction.[2] To that end, GTE pointed out that WorldCom and MCI have failed to submit

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[2] *See* Petition To Deny of GTE Service Corporation and Its Affiliated Telecommunications Companies, CC Docket No. 97-211, at 46 (Jan. 5, 1998) ("GTE Petition"). As GTE also pointed out, the FCC lacks jurisdiction to regulate the Internet itself. Accordingly, the

(Continued...)

any information with respect to the impact of the proposed merger on Internet services, providers, or users.[3] Accordingly, the Commission must dismiss or deny the applications because the merger would have clear anticompetitive consequences with no offsetting public interest benefits.

GTE explained in particular that the limited publicly available information strongly suggests that the proposed combinations of the two largest providers of Internet backbone service would substantially and adversely affect competition in the nationwide markets for Internet backbone and related services. A number of other petitioners and commenters agree.[4] As revealed in these filings, the combination of WorldCom and MCI would create an entity

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(...Continued)
Commission should reject entreaties such as those of Telstra urging the imposition of tariffing or similar requirements on Internet services. *See* Comments of Telstra Corporation Limited, CC Docket No. 97-211, at 12 (Jan. 5, 1998) ("Telstra Comments").

[3] *See* Motion To Dismiss of GTE Service Corporation, CC Docket No. 97-211 (Jan. 5, 1998); FCC Public Notice, Commission Seeks Comment on GTE Service Corporation Motion To Dismiss Application of WorldCom, Inc. and MCI Communications Corporation for Transfers of Control of MCI to WorldCom, CC Docket No. 97-211 (Jan. 12, 1998) (corrected version).

[4] *See* Comments of the Communications Workers of America, CC Docket No. 97-211 (Jan. 5, 1998) ("CWA Comments"); Petition To Deny and Request for Hearing of Simply Internet, Inc., CC Docket No. 97-211 (Jan. 5, 1998) ("Simply Internet Petition"); Petition for Conditional Approval of the Applications of WorldCom, Inc. for Transfers of Control of MCI Communications Corporation of BellSouth Corporation, CC Docket No. 97-211 (Jan. 5, 1998) ("BellSouth Petition"); Petition to Deny the Application of WorldCom or, in the Alternative, To Impose Conditions of Bell Atlantic, CC Docket No. 97-211 (Jan. 5, 1998) ("Bell Atlantic Petition"); Telstra Comments; Comments of the American Federation of Labor and Congress of Industrial Organizations, CC Docket No. 97-2494, 97-211 (Jan. 5, 1998) ("AFL-CIO Comments"); Petition To Deny of Inter City Press/Community on the Move, CC Docket No. 97-211 (Jan. 5, 1998) ("ICP/CM Petition").

that is uniquely positioned to exercise market power over the Internet to the detriment of consumers and competitors.

II. THE CURRENT STATE OF COMPETITION ON THE INTERNET

The Internet is a remarkably successful example of a network of networks. The key to its operation—indeed, the very heart of the Internet—is efficient, high-capacity interconnection among the principal national backbones. The interconnection is achieved through bilateral arrangements for the interchange of traffic between backbones at private interconnection points (in the case of the top national backbones) and at the so-called "public" network access points, or "NAPs" (in the case of smaller backbones). All national backbone operators, though they compete to provide connectivity to ISPs, Web sites and end users, also have a strong economic incentive to cooperate with each other to increase the quality and capacity of such interconnection, since the service each backbone offers to its customers is ubiquitous access to the entire Internet, which includes all other principal backbone networks.

The exponential growth in traffic on the Internet, which is currently doubling approximately every six months (in other words, *quadrupling* every year), means that each backbone is dependent on every other major backbone for continual upgrades in the capacity of interconnection.[5] In the current market structure, because no single backbone network reaches disproportionately more destinations on the Internet relative to the other top national backbones, no single backbone operator can afford not to support continual improvements in the efficiency and capacity of interconnection. Any failure by one backbone to upgrade its interconnection with another major national network would cause sufficient service

[5] Declaration of John T. Curran at ¶ 3 (Attachment 1).

degradation for its own customers that that backbone would rapidly lose business to other networks, and such a strategy would be self-defeating.[6]

At the present time, the Internet is entering a critical phase. Now that the Internet has been wholly privatized, competition is maturing, and we are beginning to see the development of market-based pricing and other terms and conditions for interconnection. These terms and conditions will be hammered out through bargaining among all the players in the industry. That bargaining process, which is just now commencing, will determine the "rules of the game" for competition among backbone operators for years to come.[7]

Absent the proposed merger of MCI and WorldCom, every indication is that the Internet will continue to grow and remain robust and competitive because of the economic incentive shared by the major backbones to cooperate on interconnection. This success demonstrates that an interdependent network of networks is the best engine for maximizing output and quality of service across the Internet. It also vindicates the policy of the Telecommunications Act favoring deregulation and competition in network industries. Accordingly, the Commission has properly determined not to attempt to assert regulatory jurisdiction over the Internet.

III. PETITIONERS AND COMMENTERS HAVE RAISED SERIOUS CONCERNS ABOUT THE ANTICOMPETITIVE EFFECT OF THE PROPOSED MERGER ON THE INTERNET

By combining the number one and number two national backbone operators, the proposed merger would create a single dominant network that will inevitably overturn the

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[6] *Id.* at ¶ 4.

[7] *Id.* at ¶ 5.

competitive balance so crucial to the functioning of the Internet. The anticompetitive disruption in incentives and bargaining power created by this merger could not come at a worse time in the development of the structure of the Internet.

The combined MCI-WorldCom backbone network will be the biggest by far. Petitioners and commenters have shown that, based on various estimates and measurements of traffic and number of Internet destinations reached, MCI-WorldCom will have a share of the national backbone market in the range of 50 to 60 percent or more.[8] MCI-WorldCom will also enjoy a huge size disparity relative to the other national backbones. Its network will reach two to three times the destinations reached by the next largest backbone.[9]

As a result of its huge size advantage, both in absolute terms and relative to other backbone operators, MCI-WorldCom will have far less dependence on any other national backbone than all others will have on it. The merged company will correspondingly lose the incentive actively to support improvements in interconnection with its rivals.[10] After the merger, it will be completely rational behavior for MCI-WorldCom to exploit the positive network externalities of a dominant network by working against interconnection. It will market its services to promote the perception among customers that "on-net" service is of higher quality than service that depends upon traffic interchange among different backbones.

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[8] *See* CWA Comments at 7-8; Simply Internet Petition at 7; Bell Atlantic Petition at 4-6; ICP/CM Petition at 2, 8-9 (quoting Kenneth Cukier, *MCI-WorldCom Faces Internet Probe*, Communications Week Int'l (Nov. 24, 1997)); AFL-CIO Comments at 3-4; Telstra Comments at 9 (quoting Thomas E. Weber and Rebecca Quick, "Would WorldCom - MCI Deal Lift Tolls on Net?," Wall Street Journal, B1 (Oct. 2, 1997)).

[9] *See* CWA Comments at 9-10.

[10] Declaration of John T. Curran at ¶ 6 (Attachment 1).

It will also rationally deploy fewer resources to improve the quality of interconnection with its rivals.

Indeed, this dramatic change in incentive will be coupled with an ability to degrade the quality of rivals' network performance by refusing to deploy or slow-rolling the deployment of new capacity at interconnection points. In light of the fact that traffic volumes are constantly pressing against the available capacity at interconnection facilities, such conduct, if targeted at a particular rival backbone, would seriously degrade the backbone services provided by any competitor. No rival backbone could stay in business for any significant time without adequate access to the dominant MCI-WorldCom network, since that network will represent more than half the destinations that must be reached by the rival's customers.

The heavy and disproportionate dependence that other backbones will have on MCI-WorldCom will also give this new goliath the bargaining leverage to dictate the pricing and other terms of interconnection. Because MCI-WorldCom would be the only backbone operator who could credibly threaten effectively to cut off rival national backbones, its competitors would have no choice but to pay supracompetitive prices for interconnection. Thus, MCI-WorldCom will have the ability to diminish competition by significantly raising the costs of its rivals.

In addition to its huge size advantage, MCI-WorldCom (through MFS) will control the most critical public interconnection points, or NAPs, on the Internet - the "MAE" facilities (particularly MAE-East, MAE-East+, and MAE-West).[11] These are the hubs where virtually

[11] Bell Atlantic Petition at 11; Hearing Before the Senate Committee on the Judiciary, 104th Cong. (Nov. 4, 1997) (Prepared Statement of Dr. Robert E. Kahn, President & CEO, CNRI).

all smaller backbones interconnect with the major national networks. MCI-WorldCom's ownership and operation of the MAE facilities will give it the truly extraordinary power, in combination with its change in incentives, to degrade the quality not only of its own interconnections with rival networks, but also of the interconnections that its national rivals maintain with non-MCI-WorldCom networks.[12]

In sum, solely as a result of the proposed merger, and not because of any additional investment in service quality or claimed synergies, MCI-WorldCom would have the incentive and power to dictate the terms of competition, raise rivals' costs, restrict output and degrade quality of service across the Internet, all to the ultimate detriment of consumers. The effects of this market power are likely to impact the competitive structure of the Internet for the foreseeable future.

As existing customers switch and new customers flock to the MCI-WorldCom network, rival backbones will succumb, and MCI-WorldCom will be in a position to extract monopoly rents up and down the value chain of the Internet. These effects will not be deterred by the prospect of new backbone networks coming on line. The merger itself will create a significant new barrier to entry in the Internet backbone market. By virtue of its throttlehold over interconnection and its ability to exploit network externalities, MCI-WorldCom will have the means to block successful new entry by would-be rivals. No new rival, even one with a significantly superior or more efficient network, will be able to gain a foothold as a national backbone operator if it is denied sufficient access to the dominant share of customers on the

[12] Bell Atlantic Petition at 11-12.

MCI-WorldCom network. As WorldCom's own vice president, John Sidgmore, has said, "Having a big network is a huge barrier to entry for competitors."[13]

IV. CONCLUSION

In its Petition GTE demonstrated that the proposed merger "would raise serious competitive concerns permeating virtually every domestic and international telecommunications market." In view of the additional facts documented in that and other petitions, the comments, and this response, GTE Service Corporation, its affiliated telecommunications companies, and GTE Internetworking hereby respectfully request that the Commission also recognize the merger's anticompetitive effects on the Internet backbone market as part of its public interest analysis and deny the applications of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation.

Respectfully submitted,

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January 26, 1998

[13] Bell Atlantic Petition at 6.

Attachment 1

Declaration of John T. Curran

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DECLARATION OF JOHN T. CURRAN

1. I am the Chief Technical Officer for GTE Internetworking, formerly BBN. BBN was an early leader in the development of the Internet and the provision of Internet services. Currently, GTE Internetworking provides a host of Internet-related services and operates a national Internet backbone network. I have been closely involved in the development of the Internet since its commercialization and am personally familiar with both the technical and commercial aspects of the backbone business. I make this Declaration in support of GTE's response to various comments and petitions filed in connection with the proposed merger of MCI and WorldCom.

2. At its core, the operation of the Internet depends upon the interchange of traffic among numerous interconnected national backbone networks. This traffic interchange occurs on the basis of bilateral interconnection arrangements between pairs of backbones. The top national backbones interchange traffic with each other primarily at private interconnection points, and smaller backbones interchange traffic with each other and with larger backbones at public facilities known as Network Access Points, or "NAPs." The most utilized NAPs on the Internet

today are the "MAE" facilities, primarily MAE-East and MAE-West, which are owned and operated by MFS, which has been acquired by WorldCom.

3. Internet backbone operators compete with each other to provide backbone service to Internet service providers, Web sites, large businesses and other end users. At the same time, the backbones are also dependent upon each other for interconnection. The need to maintain adequate interconnection is particularly acute since the volume of traffic carried over the Internet is currently doubling every six months, which means that the capacity of most interconnection facilities between backbones also must double every six months.

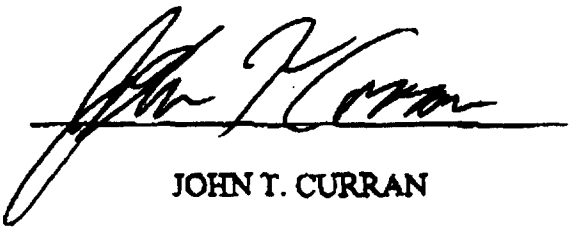
4. None of the leading backbones at the present time could successfully operate without sufficient capacity access to all of the other leading national backbone networks. No single backbone network today is so much larger than the others in terms of traffic carried or destinations reached that it could refuse to support continual improvements in interconnection with the other top national backbones without jeopardizing its own business. Backbone operators today, therefore, have a strong incentive to cooperate with each other to maintain high capacity interconnection.

5. At the present time, the Internet is entering a critically important period in which the various backbone operators are starting to negotiate pricing and other terms and conditions for interconnection. These terms and conditions will likely establish the governing structure for the Internet industry for years into the future. It is particularly important in this process that no single backbone operator have dominant bargaining power and the ability to impose its own preferred, non-competitive terms and conditions for interconnection.

6. The proposed merger of MCI and WorldCom would combine the two largest national backbone operators on the Internet. This merger would result in a single backbone that would dwarf any other in terms of destinations reached and traffic carried. The other backbone networks would be far more dependent upon the MCI-WorldCom backbone than it would be on them. Such a dominant backbone would likely no longer have the same incentive to maintain high-capacity interconnection with its competing backbones. It could delay the upgrade of interconnections between it and other backbones and could even affect the quality of interconnections between unrelated backbones at its MAE facilities. It would also likely have the bargaining power to impose its own preferred terms for interconnection.

7. The change in incentives and bargaining power likely to result from this merger would produce a serious disruption to the operation of the Internet. Such a disruption would have lasting effects because of the fact that the future terms for competition on the Internet are just now being determined through bargaining among all participants in the market.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.



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I hereby certify that on this 26th day of January, 1998, I caused copies of the foregoing Petition to Deny to be delivered by first class U.S. mail to the following:

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